



**UMZIMKHULU LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

GENERAL INFORMATION

Legal form of entity	Local municipality
Members of the Council	
Mayor	Cllr M B Mpabanga
Deputy mayor	Cllr S Nkala
Speaker	Cllr S S Thobela
Chief whip	Cllr X Tshazi
Member of the executive committee	Cllr B Cira
Member of the executive committee	Cllr M Swaartbooi
Member of the executive committee	Cllr S Ngcongco
Member of the executive committee	Cllr B J Lukakayi
Member of the executive committee	Cllr M Dhazibe
Municipal Manager (MM)	Mr Z S Sikhosana
Chief Finance Officer (CFO)	Mr Z Cezu
Grading of local authority	3
Auditors	Auditor General of South Africa
Bankers	First National Bank
Registered office	139 Main Street Umzimkhulu 3297
Physical address	139 Main Street Umzimkhulu 3297
Postal address	P O Box 53 Umzimkhulu 3297
Telephone number	039 259 5000
Fax number	039 259 0427
E-mail address	info@umzimkhululm.gov.za

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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 38 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Mr Z S Sikhosana
Municipal Manager

31 August 2012

UMZIMKHULU LOCAL MUNICIPALITY

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STATEMENT OF FINANCIAL POSITION

FIGURES IN RAND	NOTES	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	2	2 503 006	-
Trade and other receivables from exchange transactions	3	-	131 100
Other receivables from non-exchange transactions	4	1 017 766	-
Consumer debtors	5	5 316 178	7 032 546
Investments	6	35 387 730	32 969 804
VAT receivable	7	1 957 289	1 859 306
		46 181 969	41 992 756
Non-Current Assets			
Investment property	8	4 466 656	4 496 822
Property, plant and equipment	9	218 315 180	203 021 261
Intangible assets	10	119 910	195 108
Assets in construction	11	71 345 587	58 015 486
		294 247 333	265 728 677
Total Assets		340 429 302	307 721 433
LIABILITIES			
Current Liabilities			
Trade and other payables from exchange transactions	12	3 142 979	3 546 095
Retentions	13	4 866 043	1 353 478
Unspent conditional grants and receipts	14	6 704 612	6 519 986
Bank overdraft	2	-	483 132
		14 713 634	11 902 691
Non-Current Liabilities			
Provisions	15	1 279 621	1 155 214
Total Liabilities		15 993 255	13 057 905
Net Assets		324 436 047	294 663 528
NET ASSETS			
Revaluation reserve	16	84 989 929	107 340 500
Housing funds	17	29 051 938	28 032 032
Accumulated surplus	18	210 394 180	159 290 996
Total Net Assets		324 436 047	294 663 528

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STATEMENT OF FINANCIAL PERFORMANCE

FIGURES IN RAND	NOTES	2012	2011
Revenue			
Property rates	19	4 005 670	7 438 448
Service charges	20	1 148 332	651 550
Government grants and subsidies	21	148 808 469	99 377 334
Interest earned - external investments	22	1 647 061	795 161
Interest earned - outstanding receivables		542 928	425 436
Other revenue	23	1 391 456	563 118
Motor vehicle licences		639 842	488 270
Public contributions and donations - container bins		449 710	-
Rental of facilities and equipment	24	593 033	492 190
Total Revenue		159 226 501	110 231 507
Expenditure			
Employee related costs	25	(27 343 283)	(22 377 976)
Remuneration of councillors	26	(10 577 834)	(8 463 574)
Depreciation and amortisation	28	(30 484 196)	(26 096 539)
Finance costs	29	(124 407)	(50 116)
Debt impairment	27	(4 333 531)	(3 317 049)
Repairs and maintenance		(4 670 927)	(4 612 635)
Loss on scrapping of assets		(71 380)	-
General expenses	32	(52 583 054)	(36 459 468)
Total Expenditure		(130 188 612)	(101 377 357)
Surplus for the year		29 037 889	8 854 150

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STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Revaluation reserve	Housing funds	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2010	132 296 709	26 923 707	159 220 416	129 988 272	289 208 688
Changes in net assets					
Surplus for the year	-	-	-	8 854 150	8 854 150
Interest earned on investments	-	1 108 325	1 108 325	-	1 108 325
Movable asset adjustments	-	-	-	(1 053 025)	(1 053 025)
WCA expenditure paid in the current year relating to prior periods	-	-	-	(1 171 776)	(1 171 776)
Offsetting of depreciation	(24 956 210)	-	(24 956 210)	24 956 210	-
Council approval to write off debtors take-on balances	-	-	-	(2 194 956)	(2 194 956)
Portion of accrued bonus raised not paid out	-	-	-	16 740	16 740
Creditors adjustments	-	-	-	(234 494)	(234 494)
Clearing bank reconciliation variances	-	-	-	(234 142)	(234 142)
Councillors cellphone balances no longer owing	-	-	-	(96 654)	(96 654)
Accrual adjustments	-	-	-	133 640	133 640
Write off of accounts with no movement	-	-	-	328 699	328 699
Additional depreciation of Esikheweni river crossing	-	-	-	(1 670)	(1 670)
Total changes	(24 956 210)	1 108 325	(23 847 885)	29 302 722	5 454 837
Balance at 01 July 2011	107 340 500	28 032 032	135 372 532	159 290 993	294 663 525
Changes in net assets					
Surplus for the year	-	-	-	29 037 889	29 037 889
Council approval to write off creditors take on balances	-	-	-	(47 297)	(47 297)
Insurance expenditure paid but not captured in prior year	-	-	-	(97 945)	(97 945)
Cancellation of expenditure captured twice in the system	-	-	-	129 333	129 333
Cancellation of over receipts	-	-	-	(16 775)	(16 775)
Additional depreciation of infrastructure	-	-	-	(443 215)	(443 215)
Re-assessment of useful lives of movable assets	-	-	-	138 594	138 594
Cancellation of prior year accruals	-	-	-	63 796	63 796
Council approval to write off creditors take on balances	-	-	-	(11 764)	(11 764)
Interest earned on investments	-	1 019 906	1 019 906	-	1 019 906
Offsetting of depreciation	(22 350 571)	-	(22 350 571)	22 350 571	-
Total changes	(22 350 571)	1 019 906	(21 330 665)	51 103 187	29 772 522
Balance at 30 June 2012	84 989 929	29 051 938	114 041 867	210 394 180	324 436 047
NOTES	16	17		18	

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CASH FLOW STATEMENT

FIGURES IN RAND	NOTES	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		8 840 920	9 447 570
Government grants and subsidies		148 808 469	99 377 334
Interest income		1 647 061	795 161
		<u>159 296 450</u>	<u>109 620 065</u>
Payments			
Suppliers		(94 818 149)	(66 780 017)
Net cash flows from operating activities	33	<u>64 478 301</u>	<u>42 840 048</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement on property, plant and equipment	9	(45 731 619)	(19 066 760)
Net movement on intangible assets	10	(12 513)	(3 793)
Net movement on assets in construction		(13 330 101)	(19 834 349)
Net movement on investments		(2 417 930)	(4 974 368)
Net cash flows from investing activities		<u>(61 492 163)</u>	<u>(43 879 270)</u>
Net increase/(decrease) in cash and cash equivalents		2 986 138	(1 039 222)
Cash and cash equivalents at the beginning of the year		(483 132)	556 090
Cash and cash equivalents at the end of the year	2	<u>2 503 006</u>	<u>(483 132)</u>

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ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued and have not been early adopted by the municipality:

GRAP 8 Interest in Joint Ventures - issued August 2006

GRAP 18 Segment Reporting - issued March 2005

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008

GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007

GRAP 103 Heritage Assets - issued July 2008

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Summary of Significant Accounting Policies

2. PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.2 SUBSEQUENT MEASUREMENT - COST AND REVALUATION MODEL

Subsequent to initial recognition, items of property, plant and equipment such as Other fixed assets are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

All other items of property, plant and equipment such as Infrastructure, Community and Buildings are carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

The municipality shall revalue all its assets that are under revaluation model every 5 years.

2.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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Summary of Significant Accounting Policies

PROPERTY, PLANT AND EQUIPMENT (continued)

Item	Average useful life
Buildings	30 years
Infrastructure	
• Roads and paving	30 years
• Pedestrian malls	30 years
• Electricity	0-30 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years
Other property, plant and equipment	
• Specialist vehicles	10 years
• Other vehicles	5 years
• Office equipment	3-7 years
• Furniture and fittings	7-10 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

2.4 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

3. INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash flows for the municipality. Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

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Summary of Significant Accounting Policies

INTANGIBLE ASSETS (continued)

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

3.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3-5 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4. INVESTMENT PROPERTY

4.1 INITIAL RECOGNITION

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

4.2 SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

The municipality shall revalue its investment property that are under revaluation model every 5 years.

Buildings	30 years
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Summary of Significant Accounting Policies

5. FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

5.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

5.2.1 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

5.2.2 TRADE AND OTHER RECEIVABLES

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollected, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

5.2.3 TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

5.2.4 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

6. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Summary of Significant Accounting Policies

7. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

8. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

9. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

10. LEASES

10.1 MUNICIPALITY AS LESSEE

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

10.2 MUNICIPALITY AS LESSOR

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Summary of Significant Accounting Policies

11. REVENUE

11.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

11.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Summary of Significant Accounting Policies

REVENUE (continued)

11.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

12. BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

13. IMPAIRMENT OF ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

14. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Bank balances	2 503 006	-
Bank overdraft	-	(483 132)
	2 503 006	(483 132)
Current assets	2 503 006	-
Current liabilities	-	(483 132)
	2 503 006	(483 132)

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

Primary bank account details

Bank name/account type and number	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
First National Bank - Cheque account - 5255 573 0913	2 503 006	(483 132)	556 090	2 503 006	(483 132)	556 090

3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Other receivables	-	490 815
Funds recoverable	-	123 872
Provision for bad debts	-	(490 815)
Staff debtor recoveries	-	7 228
	-	131 100

4. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Government grants - MIG over expenditure	1 017 096	-
Overpayment of salaries	670	-
	1 017 766	-

5. CONSUMER DEBTORS

Gross balances		
Rates and refuse	12 431 888	18 691 079
Less: Provision for debt impairment		
Rates and refuse	(7 115 710)	(11 658 533)
Net balance		
Rates and refuse	5 316 178	7 032 546

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
5. CONSUMER DEBTORS (continued)		
Rates and refuse		
Current (0 -30 days)	503 353	671 375
31 - 60 days	445 122	658 556
61 - 90 days	381 941	617 256
91 - 120 days	409 244	601 279
121 - 365 days	10 692 228	16 142 613
	12 431 888	18 691 079
Reconciliation of debt impairment provision		
Balance at beginning of the year	(11 658 533)	(8 341 483)
Removing write offs	7 446 894	-
Increase bad debt provision	(2 904 071)	(3 317 050)
Balance at end of the year	(7 115 710)	(11 658 533)
6. INVESTMENTS		
Clydesdale Housing - FNB - 62331947418 - Business Call Account	12 424 283	11 921 443
Ext 5&6 Housing Project - FNB - 62023990907 - Business Call Account	1 588 028	1 537 168
Ibisi Housing Project - FNB - 62331935950 - Business Call Account	1 040 277	1 005 086
MIG Grant - 62123938055 - FNB - Business Call Account	1 000	450 992
MSIG - 62127055045 - FNB - Business Call Account	1 294	46 710
Neighbourhood Grant - FNB - 62174352525 - Business Call Account	5 195 667	380 874
Electrification - FNB - 62174363508 - Business Call Account	1 447 070	369 959
Riverside Housing Project Phase 1 - FNB - 62023990593 - Business Call Account	830 689	808 922
Riverside Phase 2 - FNB - 62331950495 - Business Call Account	4 260 317	4 110 473
Reitvl/Cly Surv Account - FNB - 62123938104 - Business Call Account	699 961	681 589
Rural Housing Project - FNB - 62331949422 - Business Call Account	6 004 425	5 763 394
32 Day Ex Main Account - FNB - 62132172355 - Business Nstd Call	1 664 599	5 813 074
Sport Facility Grant - FNB - 62125140129 - Business Call Account	230 120	80 120
	35 387 730	32 969 804
7. VAT RECEIVABLE		
Vat	1 957 289	1 859 306

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

	2012	2011
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8. INVESTMENT PROPERTY

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	4 919 152	(452 496)	4 466 656	4 919 152	(422 330)	4 496 822

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	4 496 822	(30 166)	4 466 656

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	4 526 989	(30 167)	4 496 822

8.1 Rental income from investment property

Direct operating expenses from rental generating property	593 033	486 067
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8.2 Details of property

Land - Shopping Complex

Erven 229, 735 and 736

Duration : 50 years

Termination date : 18 June 2046

Payments : Year one 8% of net rentals, Year two 9% of net rentals, Remainder : 10% of net rentals.

- Purchase price: 1 July 1997

4 014 160	4 014 160
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Buildings - Hotel and House

Erven 231 and 232

Duration : 16 years

Termination date : 31 May 2012

Payments : Monthly in advance

- Purchase price: 1 December 2008

- Depreciation

904 992	904 992
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(452 496)	(422 330)
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452 496	482 662
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Total Land and Buildings

4 466 656	4 496 822
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Which together with the 2% payable to the Trust will not be less than R14,800.00 per year.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand 2012 2011

9. PROPERTY, PLANT AND EQUIPMENT

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and buildings	57 565 578	(5 408 088)	52 157 490	55 463 205	(3 538 305)	51 924 900
Infrastructure	214 134 555	(71 902 394)	142 232 161	184 072 289	(44 578 556)	139 493 733
Community	20 033 528	(1 499 178)	18 534 350	7 123 954	(793 975)	6 329 979
Other fixed assets	5 789 003	(3 345 648)	2 443 355	5 421 152	(3 096 327)	2 324 825
Heritage	2 947 824	-	2 947 824	2 947 824	-	2 947 824
Total	300 470 488	(82 155 308)	218 315 180	255 028 424	(52 007 163)	203 021 261

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Land and buildings	51 924 900	2 102 374	-	(1 869 784)	52 157 490
Infrastructure	139 493 733	29 619 052	-	(26 880 624)	142 232 161
Community	6 329 979	12 909 574	-	(705 203)	18 534 350
Other fixed assets	2 324 825	1 100 619	(68 073)	(914 016)	2 443 355
Heritage	2 947 824	-	-	-	2 947 824
	203 021 261	45 731 619	(68 073)	(30 369 627)	218 315 180

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land and buildings	53 344 781	404 974	-	(1 824 855)	51 924 900
Infrastructure	145 382 369	17 063 015	(1 670)	(22 949 981)	139 493 733
Community	5 462 072	1 264 894	-	(396 987)	6 329 979
Other fixed assets	3 804 781	333 877	(1 053 024)	(760 809)	2 324 825
Heritage	2 947 824	-	-	-	2 947 824
	210 941 827	19 066 760	(1 054 694)	(25 932 632)	203 021 261

Revaluations

The effective date of the revaluations was 30 June 2009. Revaluations were performed by an independent valuer, the Aurecon Group and they are not connected to the municipality.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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10. INTANGIBLE ASSETS

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	715 593	(595 683)	119 910	1 010 531	(815 423)	195 108

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	195 108	12 513	(3 307)	(84 404)	119 910

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	325 057	3 793	(133 742)	195 108

11. ASSETS IN CONSTRUCTION

Wip Angus Farm Sportfield	-	5 107 287
Wip Kwa Njunga Access Road	-	1 582 766
Wip New Mountain Access Road	-	1 509 303
Wip Ngujini To Drifont Access Road	-	3 713 222
Wip Nkofeni Access Road	-	2 305 265
Wip Madakeni Sportfield	1 114 160	91 037
Wip Mzwandile Mhlawuli Community Hall	26 565	-
Wip Road Paving of Cbd	-	9 221 385
Wip Pound	3 469 211	-
Wip Rietvlei Sportfield Phase 2	945 755	601 875
Wip Slovas Access Road	1 835 564	246 342
Wip Dressini Sportfield	2 470 273	-
Wip Mfundweni Access Road	2 485 503	-
Wip Ngujini Community Hall	1 660 680	-
Wip Zintwala Community Hall	68 400	-
Wip Zwelinzima Sportfield	3 060 564	-
Wip Antiok Access Road	69 896	-
Wip Bombo To Sodom Access Road	50 220	-
Wip Emaus Access Road	71 899	-
Wip Gijima To Magaqa Access Road	59 601	-
Wip Gudlintaba Access Road	69 896	-
Wip Khayeka Access Road	188 584	-
Wip Masamin-Nxaphanxapha Access Road	857 507	-
Wip Mkangala To Nsingiz Access Road	2 352 324	-
Wip Mpola Access Road	70 694	-
Wip Nhlambamasoka Cluster	-	6 416 267
Wip Ntokozweni Access Road	76 793	-
Wip Plann On Road 2130	9 554 384	-
Wip Other	21 342 543	12 423 239
Wip Skoonplaas Access Road	19 444 571	14 797 498
	71 345 587	58 015 486

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

12. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Payments received in advanced - contract in process	145 195	144 845
Workmans compensation	36 008	-
UIF accrued expense	409 424	409 424
Accrued leave pay	1 651 568	1 493 127
Accrued expenses	887 851	1 578 728
Deposits received	12 933	(80 028)
	3 142 979	3 546 095

13. RETENTIONS

Opening balance	1 353 478	-
Prior year restated balance	-	1 353 478
Current year	3 512 565	-
Closing balance	4 866 043	1 353 478

14. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Pound Grant	-	1 000 000
MIG Fund	-	3 027 259
MSIG Fund	-	59
Neighbourhood Grant	4 733 934	1 402 614
Electrification Grant	1 442 417	1 090 054
Small Town Development	528 261	-
	6 704 612	6 519 986

15. PROVISIONS

Reconciliation of provisions - 2012

	Opening Balance	Interest	Total
Landfill site provision	1 155 214	124 407	1 279 621

Reconciliation of provisions - 2011

	Opening Balance	Interest	Total
Landfill site provision	1 105 097	50 117	1 155 214

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in 2013 and has been discounted to reflect its present value. The discounting rate used is 5,5% (2011 : 4.2%).

16. REVALUATION RESERVE

Opening balance	107 340 500	107 340 500
Movements during the year	(22 350 571)	-
Closing balance	84 989 929	107 340 500

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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17. HOUSING FUNDS

Opening balance	28 032 032	28 032 032
Movements during the year	1 019 906	-
Closing balance	29 051 938	28 032 032

18. ACCUMULATED SURPLUS

Ring-fenced internal funds and reserves within accumulated surplus - 2012

	Opening balance	Adjustments during the year	Government grant reserve	Deferred charges	Surplus for the year	Total
	114 191 861	-	12 220 762	32 878 370	29 037 889	188 328 882
Offsetting of depreciation	-	22 350 571	-	-	-	22 350 571
Net movements in accumulated surplus	-	(285 271)	-	-	-	(285 271)
	114 191 861	22 065 300	12 220 762	32 878 370	29 037 889	210 394 182

Ring-fenced internal funds and reserves within accumulated surplus - 2011

Opening balance	Government grant reserve	Deferred charges	Surplus for the year	Total
105 337 710	12 220 762	32 878 370	8 854 151	159 290 993

19. PROPERTY RATES

Rates raised

Residential, Commercial and State	4 005 670	7 438 448
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20. SERVICE CHARGES

Refuse removal	1 148 332	651 550
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UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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21. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	74 978 000	59 410 625
Government grant - operating revenue	4 374 459	2 518 595
Government grant - capital revenue	69 456 010	37 448 114
	148 808 469	99 377 334

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Pound Grant

Balance unspent at beginning of year	1 000 000	-
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	(1 000 000)	-
	-	1 000 000

Conditions still to be met - remain liabilities (see note 14).

The purpose of this grant is for construction of Pound.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Sport Grant

Current-year receipts	150 000	-
Conditions met - transferred to revenue	(150 000)	-
	-	-

The purpose of this grant is for sport development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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21. GOVERNMENT GRANTS AND SUBSIDIES (continued)

MIG Fund (Capital)

Balance unspent at beginning of year	3 027 259	-
Current-year receipts	39 688 000	26 795 000
Conditions met - transferred to revenue	(42 715 259)	(23 767 741)
	-	3 027 259

Conditions still to be met - remain liabilities (see note 14).

The purpose of this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

MSIG Fund

Balance unspent at beginning of year	59	-
Current-year receipts	790 000	800 000
Conditions met - transferred to revenue	(790 059)	(799 941)
	-	59

Conditions still to be met - remain liabilities (see note 14).

The purpose of this grant is for building in house capacity and to stabilise institutional and government systems.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Neighbourhood Grant

Balance unspent at beginning of year	1 402 614	-
Current-year receipts	16 570 000	10 000 000
Conditions met - transferred to revenue	(13 238 680)	(8 597 386)
	4 733 934	1 402 614

Conditions still to be met - remain liabilities (see note 14).

The purpose of this grant is for property development in townships, upgrading community facilities and attracting private sector funding and input.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : We experienced delays with the approval of EIA for Road 2130 where there is wetland.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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21. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Electrification Grant

Balance unspent at beginning of year	1 090 054	-
Current-year receipts	10 000 000	5 768 000
Conditions met - transferred to revenue	(9 647 637)	(4 677 946)
	1 442 417	1 090 054

Conditions still to be met - remain liabilities (see note 14).

The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings and installation of bulk infrastructure and rehabilitation of electrification infrastructure.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : We experience delays by Eskom in conducting surveys for the villages that were to be electrified.

Small Town Development

Current-year receipts	4 597 322	-
Conditions met - transferred to revenue	(4 069 061)	-
	528 261	-

Conditions still to be met - remain liabilities (see note 14).

The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The project is on retention which is due to expire at the end of July 2012.

22. INTEREST EARNED - EXTERNAL INVESTMENTS

Loans	-	21 984
Bank	1 647 061	773 177
	1 647 061	795 161

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
23. OTHER REVENUE		
Advertising income	52 995	35 113
Arts and culture library subsidy	301 632	-
Building plans and servitudes	81 939	60 515
Business tariffs	5 858	-
Cemetery fees	11 608	7 487
Councillor allowance top up sub	5 426	-
Councillor cellphone reimbursement	88	2 640
Dumping fees	28 800	8 496
Hall fees	13 807	15 777
PDA applications	1 316	-
Refund income	234 677	39 054
Repayment of debt	12 222	-
Sundry income	641 088	394 036
	1 391 456	563 118

Sundry income includes fees from tender documents.

24. RENTAL OF FACILITIES AND EQUIPMENT

Facilities and equipment	593 033	492 190
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UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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25. EMPLOYEE RELATED COSTS

Basic	21 234 270	17 357 616
Bonus	1 279 512	714 606
Medical aid - company contributions	690 958	681 498
UIF	195 119	158 169
Bargaining council	5 494	4 854
Pension fund - company contributions	1 882 857	1 650 427
Travel and telephone allowances	908 880	1 065 773
Overtime payments	104 654	8 984
Acting allowances	281 054	57 844
Housing benefits and allowances	760 485	678 205
	27 343 283	22 377 976

Remuneration of Municipal Manager

Annual Remuneration	390 997	513 377
Travel Allowance	167 502	213 907
Contributions to UIF, Medical and Pension Funds	89 055	102 675
Housing Allowance	8 689	25 669
Cellphone	13 500	18 000
Backpay	-	13 258
Leave Paid Out	160 385	-
	830 128	886 886

Remuneration of Chief Finance Officer

Annual Remuneration	411 481	380 035
Travel Allowance	171 450	158 348
Contributions to UIF, Medical and Pension Funds	67 576	63 339
Housing Allowance	33 286	31 669
Cellphone	12 000	12 000
Backpay	16 080	9 814
Acting Allowance	59 177	-
Bonus Salary	57 888	-
Leave Paid Out	130 905	-
	959 843	655 205

Remuneration of Infrastructure and Engineering Manager

Annual Remuneration	399 431	380 035
Travel Allowance	166 429	158 348
Contributions to UIF, Medical and Pension Funds	68 069	63 339
Housing Allowance	33 286	31 669
Cellphone	12 000	12 000
Backpay	16 080	9 814
	695 295	655 205

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

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2011

25. EMPLOYEE RELATED COSTS (continued)

Remuneration of Corporate Services Manager

Annual Remuneration	167 195	309 694
Travel Allowance	69 680	129 039
Contributions to UIF, Medical and Pension Funds	42 414	51 616
Housing Allowance	-	25 808
Cellphone	5 000	10 000
Backpay	-	9 627
Leave Paid Out	-	109 184
	284 289	644 968

Remuneration of Social Services Manager

Annual Remuneration	391 814	372 788
Travel Allowance	163 256	155 328
Contributions to UIF, Medical and Pension Funds	58 772	55 918
Housing Allowance	39 181	37 279
Cellphone	12 000	12 000
Backpay	15 774	9 627
Bonus Salary	56 785	-
	737 582	642 940

Remuneration of Planning and Development Manager

Annual Remuneration	198 742	363 078
Travel Allowance	82 825	151 282
Contributions to UIF, Medical and Pension Funds	46 522	60 513
Housing Allowance	3 155	30 256
Cellphone	5 000	12 000
Backpay	-	9 627
Leave Payout	-	97 053
	336 244	723 809

26. REMUNERATION OF COUNCILLORS

Mayor	597 326	538 227
Deputy mayor	477 860	430 581
Executive members	1 544 033	1 460 646
Speaker	457 775	413 098
Chief Whip	427 409	387 280
Councillors' basic allowance	3 935 919	2 542 416
Councillors' travel allowance	1 341 152	1 011 019
Councillors' pension fund contribution and UIF	572 157	683 488
Councillors' medical aid contribution	233 611	242 510
Councillors' cellphone allowances	990 592	754 309
	10 577 834	8 463 574

Ward committee expenses

Councillors' basic allowance includes ward committee expenses of R432 145 (2011 : R69 160).

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
27. DEBT IMPAIRMENT		
Debt impaired	1 429 460	-
Contributions to debt impairment provision	2 904 071	3 317 049
	4 333 531	3 317 049
28. DEPRECIATION AND AMORTISATION		
Property, plant and equipment	30 369 626	25 932 631
Investment property	30 166	30 166
Intangible assets	84 404	133 742
	30 484 196	26 096 539
29. FINANCE COSTS		
Landfill site	124 407	50 116
30. OPERATING SURPLUS		
Operating surplus for the year is stated after accounting for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	763 325	806 926
Equipment		
• Contractual amounts	408 359	307 064
	1 171 684	1 113 990
Scrapping loss on other assets	(68 073)	-
Loss on sale of intangible assets	(3 307)	-
Amortisation on intangible assets	84 404	133 742
Depreciation on property, plant and equipment	30 369 626	25 932 631
Depreciation on investment property	30 166	30 166
Employee costs	37 921 117	30 841 550
31. REVENUE		
Property rates	4 005 670	7 438 448
Service charges	1 148 332	651 550
Rental of facilities and equipment	593 033	492 190
Interest earned – outstanding receivables	542 928	425 436
Government grants and subsidies	148 808 469	99 377 334
Motor vehicle licences	639 842	488 270
	155 738 274	108 873 228
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1 148 332	651 550
Rental of facilities and equipment	593 033	492 190
Interest earned - outstanding receivables	542 928	425 436
	2 284 293	1 569 176

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
31. REVENUE (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	4 005 670	7 438 448
Government grants and subsidies	148 808 469	99 377 334
Motor vehicle licences	639 842	488 270
	153 453 981	107 304 052
32. GENERAL EXPENSES		
Administration cost	-	1 650 000
Advertising	347 289	367 025
Bank charges	91 348	44 288
Cleaning	519 062	488 198
Consulting and professional fees	7 924 363	7 335 903
Donations	5 865 748	-
Entertainment	2 649 448	1 769 797
Equipment hire	1 658 425	1 077 582
Fire brigade	2 273 016	1 336 544
Fuel and oil	606 499	345 083
Grant expenditure	376 043	1 346 124
IT expenses	2 342 704	1 829 723
Insurance	497 708	257 749
Lease rentals on operating lease	1 171 684	1 113 990
Leave provision	592 564	227 810
Motor vehicle expenses	524 852	321 747
Office equipment expenses	336 656	160 032
Other expenses	14 749 724	9 735 011
Printing and stationery	1 873 622	1 175 106
Promotions and sponsorships	243 724	170 168
Security (guarding of municipal property)	3 437 304	2 373 270
Skills development levy	325 289	277 901
Staff welfare	255 490	363 594
Subscriptions and membership fees	211 021	214 169
Telephone and fax	1 592 059	1 209 451
Training	611 106	620 242
Transport and freight	1 298 514	596 504
Uniforms	81 786	16 449
Water	89 998	-
Workmens compensation	36 008	36 008
	52 583 054	36 459 468

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
33. CASH GENERATED FROM OPERATIONS		
Surplus	29 037 889	8 854 150
Adjustments for:		
Depreciation and amortisation	30 484 196	26 096 539
Loss on scrapping of assets	71 380	-
Debt impairment	4 333 531	3 317 049
Movements in retentions	3 512 565	1 353 478
Movements in provisions	124 407	50 117
Adjustments to accumulated surplus	(285 273)	(3 452 942)
Movement in housing funds	1 019 906	1 108 325
Changes in working capital:		
Trade and other receivables from exchange transactions	131 100	770 483
Other receivables from non-exchange transactions	(1 017 766)	-
Consumer debtors	(2 617 163)	(111 232)
Trade and other payables from exchange transactions	(403 114)	(34 305)
Vat	(97 983)	2 124 598
Unspent conditional grants and receipts	184 626	6 076 762
	64 478 301	46 153 022
34. COMMITMENTS		
Authorised capital expenditure		
Authorised and contracted		
• Community	14 374 004	-
• Infrastructure	13 706 974	18 874 368
	28 080 978	18 874 368
Authorised but not contracted		
• Community	3 405 900	-
• Infrastructure	43 500 000	35 813 632
	46 905 900	35 813 632
35. CONTINGENCIES		
Management is not aware of any possible obligations that may exist at year end.		
36. COMPARATIVE FIGURES		
Certain comparative figures have been reclassified.		
The effects of the reclassification are as follows:		
Statement of financial position		
Assets in construction	-	1 353 478
Retentions	-	(1 353 478)
37. FRUITLESS AND WASTEFUL EXPENDITURE		
Opening balance	408 496	-
Workmens compensation - interest and penalties on late payments	-	408 496
Condoned and written off by Council	(408 496)	-
	-	408 496

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
38. IRREGULAR EXPENDITURE		
Opening balance	2 158 341	-
Add: Irregular Expenditure - current year	462 745	-
Transactions with suppliers in the service of the state	-	982 642
Quotations not obtained for procurement of goods and services	-	368 960
Tender process not followed for the extension of services rendered	-	806 739
Condoned and written off by the Council	(2 158 341)	-
	462 745	2 158 341
39. RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net surplus per the statement of financial performance	29 037 889	8 854 150
Adjusted for:		
Increase in depreciation on revalued assets	24 711 939	25 551 396
Increase/(decrease) in general expenses	13 590 308	(8 031 803)
Decrease in government grant funding	1 600 872	12 918 693
Overestimation of other income	10 639 438	11 506 882
Decrease/(Increase) in property rates	1 688 121	(1 438 448)
Reduction of repairs and maintenance	(5 804 769)	(1 819 769)
Other variances	(1 232 219)	(275 102)
Net surplus per approved budget	74 231 579	47 265 999
40. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
Contributions to organised local government		
Current year	192 231	192 231
Amount paid	(192 231)	(192 231)
	-	-
Audit fees		
Current year	2 018 444	1 385 044
Amount paid	(2 018 444)	(1 385 044)
	-	-
PAYE and UIF		
Opening balance	-	(10 568)
Current year payroll deductions	5 275 714	4 795 388
Amount paid - current year	(5 275 714)	(4 795 388)
Amount paid - previous years	-	10 568
	-	-
Pension and Medical Aid Deductions		
Current year payroll deductions and council contributions	6 204 540	5 611 375
Amount paid - current year	(6 204 540)	(5 611 375)
	-	-

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2012	2011
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40. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

VAT

Vat receivable	1 957 289	1 859 306
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
F Nene	466	4 787	5 253
30 June 2011			
J S Msizi	777	54	831
F Nene	493	5 524	6 017
	1 270	5 578	6 848

41. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the municipal manager may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Appendix A

UMZIMKHULU MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012

	Balance at 30 June 2011 R	Redeemed during the period R	Balance at 30 June 2012 R	Carrying value of Asset at 30 June 2012 R
LEASE LIABILITY				
	0	0	0	0
TOTAL EXTERNAL LOANS	0	0	0	0

APPENDIX B

UMZIMKHULU MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2012

	COST Opening Balance	Additions	Disposals	Other changes	Closing Balance 2012	ACCUMULATED DEPRECIATION Opening Balance	Depreciation	Other changes	Disposals	Closing Balance 2012	Carrying Value
	R	R	R	R	R	R	R	R	R	R	R
Infrastructure											
Roads	165 440 112 00	29 619 053			195 059 165	43 128 662	26 157 422			69 732 789	125 326 376
Stormwater	14 994 083 00				14 994 083	1 271 596	635 798			1 907 393	13 086 690
Bridges	3 638 095 00				3 638 095	178 298	87 404			262 211	3 375 884
Community Assets											
Parks and Sportsgrounds	7 123 954	12 909 574			20 033 528	793 975	705 203			1 499 178	18 534 350
Land & Buildings											
Land	611 000				611 000						611 000
Buildings	46 947 796	2 102 373			49 050 171	2 172 705	1 186 994			3 359 689	45 690 482
Taxi Ranks	7 904 407				7 904 407	1 365 599	682 800			2 048 399	5 856 008
Other assets	5 421 152	1 100 619	-614 124		6 232 216	3 096 326	914 017		526 101	3 345 648	2 886 568
Heritage asset	2 947 824				2 947 824						2 947 824
TOTAL	255 028 424	45 731 619	-614 124	-	300 470 488	52 007 161	30 369 627		526 101	82 155 307	218 315 182

UMZIMKHULU MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

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APPENDIX D

UMZIMKHULU MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

2 012 Actual Revenue R	2 012 Actual Expenses R	2 012 Surplus/ (Deficit) R		2011 Actual Revenue R	2011 Actual Expenses R	2011 Surplus/ (Deficit) R
41 543	17 255 971	-17 214 428				
101 268 414	67 556 613	33 711 801	COUNCIL AND MUNICIPAL MANAGER	2 641	21 361 778	-21 359 137
55 892 810	38 620 602	17 272 209	FINANCE AND ADMINISTRATION	71 021 356	26 901 551	44 119 805
2 023 734	6 755 426	-4 731 692	PLANNING & INFRASTRUCTURE	38 035 931	42 851 207	-4 815 277
			COMMUNITY AND SOCIAL SERVICES	1 171 580	10 262 820	-9 091 240
159 226 501	130 188 612	29 037 889	TOTAL	110 231 507	101 377 356	8 854 151

APPENDIX E

UMZIMKHULU MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 31 JUNE 2012

	2012 Budget (R)	2012 Actual (R)	2012 Variance (R)	2012 Variance (%)
REVENUE				
PROPERTY RATES	5 693 791	4 005 670	1 688 121	30%
SERVICE CHARGES	300 000	1 148 332	(848 332)	-283%
RENTAL INCOME	500 000	583 033	(93 033)	-19%
LICENCES AND PERMITS	200 000	409 236	(209 236)	-105%
GOVERNMENT GRANTS	149 302 630	148 808 468	494 162	0%
MOTOR VEHICLE LICENCES	200 000	230 606	(30 606)	-15%
OTHER INCOME	12 795 000	2 384 095	10 410 905	81%
INTEREST ON INVESTMENTS	2 200 000	1 647 061	552 939	25%
TOTAL REVENUE	171 191 421	159 226 501	11 964 920	7%

	2012 Budget (R)	2012 Actual (R)	2012 Variance (R)	2012 Variance (%)
EXPENSES				
PERSONNEL COSTS	35 146 091	37 921 117	(2 775 026)	-8%
DEPRECIATION	4 176 578	30 484 196	(26 307 618)	-630%
BAD DEBTS		4 333 531		0%
REPAIRS AND MAINTENANCE	13 503 347	4 670 927	8 832 420	65%
GENERAL EXPENDITURE	48 791 804	52 778 841	(3 987 037)	-8%
TOTAL EXPENSES	101 617 820	130 188 612	(24 237 261)	-24%
NET SURPLUS FOR THE YEAR	69 573 601	29 037 889	36 202 181	52%